

Washington State Auditor's Office

Audit Report

Audit Services

Report No. 57746

SPOKANE SCHOOL DISTRICT No. 81

Spokane County, Washington

September 1, 1994 Through August 31, 1995

Issue Date: September 20, 1996

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SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

**Independent Auditor's Report On Compliance With Laws And Regulations
At The Financial Statement Level (Plus Additional State Compliance
Requirements Per RCW 43.09.260)**

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the general-purpose financial statements, as listed in the table of contents, of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated July 31, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to Spokane School District No. 81 is the responsibility of the district's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the district complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the district's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the district and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of material noncompliance that are required to be reported herein under *Government Auditing Standards*. However, we noted instances of noncompliance immaterial to the financial statements which are identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Internal Control Structure
At The Financial Statement Level

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the general-purpose financial statements of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated July 31, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the district, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could

adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described in the Schedule of Findings is a material weakness.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Schedule Of Findings

1. The District Should Improve Internal Controls Over Associated Student Body (ASB) Activities

Our audit of the district's Associated Student Body (ASB) activities revealed internal control system concerns in the following areas:

a. Cash Receipting

(1) Cash/check composition is not consistently identified on district receipts. Proper recording of the cash/check composition is necessary to provide an adequate audit trail to help ensure that all money collected is deposited in the district's accounts.

(2) Receipt books are issued to the elementary schools, plant department, and express program but they are not consistently used.

(3) Checks received are not endorsed in a timely manner.

(4) Access to the cash registers or cash boxes was not sufficiently restricted. Because several employees collected money using the same cash drawer, responsibility for these funds cannot be fixed.

(5) Insufficient documentation over fundraisers to determine if all moneys collected were accurately and completely receipted into the ASB account.

b. Cash Disbursements

(1) Student approvals are not consistently obtained for ASB purchases.

(2) Expenditures are not adequately supported with original documentation as required by statute.

(3) Improper purchases were made with ASB funds, e.g. a computer for a classroom teacher, gym equipment, physical education uniforms, and supplies for regular classroom activities.

c. Legal Compliance

(1) ASB minutes were not consistently retained or properly completed by the individual schools.

(2) Sal Haas Trust funds are deposited into the general student body account and not a separate trust fund.

(3) A general lack of student involvement in directing ASB operations. ASB advisors and bookkeepers sign and approve purchase requisitions, vouchers, minutes, and the budgets.

(4) Parent/teacher private funds are co-mingled with ASB public funds. Improper expenditures are then disbursed from the ASB accounts such as: vacuum cleaner for janitor, computers for classrooms, etc.

Washington Administrative Code (WAC) 392-138-045 states in part:

The fiscal and accounting records of associated student body program moneys shall . . . be available for examination by the state auditor, and shall be preserved

WAC 392-138-050(3) states:

All disbursements from the associated student body program fund or any imprest bank account established thereunder shall have the approval of the appropriate governing body representing the associated student body. Supporting documentation of vouchers shall bear evidence of approval by the associated student body governing body in accordance with associated student body bylaws.

Revised Code of Washington (RCW) 43.09.200 states in part:

The system shall exhibit true accounts and detailed statements of funds collected, received, and expended for account of the public for any purpose whatever, and by all public officers, employees, or other persons.

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain.

The district has not ensured that established policies and procedures, covering the operations of ASB activities, were properly followed.

Weak internal controls increase the risk that errors or theft will occur and not be detected in a timely manner, if at all.

We recommend that the district review all established policies and procedures concerning the proper operation of ASB activities. We further recommend the district ensure that all of its employees are following established procedures.

Auditee's Response

The district concurs with this finding and is taking corrective actions. The district has scheduled a workshop this fall to go over the current policies and correct procedures. The district has hired an internal control accountant to continuously monitor this area.

2. School District Officials Should Improve Internal Controls Over Cash Receipting

During our audit of Spokane School District's decentralized cash receipting system we noted the following:

- a. Cash/check composition is not consistently identified on district receipts. Proper recording of the cash/check composition is necessary to provide an adequate audit trail to help ensure that all money collected is deposited in the district's accounts.
- b. Receipt books are issued to the elementary schools, plant department, and express program but they are not consistently used.
- c. Checks received are not consistently endorsed in a timely manner.
- d. Access to the cash registers or cash boxes was not sufficiently restricted. Since several employees collected money using the same cash drawer, responsibility for these funds cannot be fixed.

Revised Code of Washington (RCW) 43.09.200 states in part:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

District policies and procedures have not been consistently followed in decentralized cash receipting locations.

Weaknesses in the cash receipting internal control system result in decreased accountability over cash receipts and an increased risk that errors and/or theft could occur and not be detected in a timely manner, if at all.

We recommend that district officials strengthen internal controls over the decentralized cash receipting locations. This should include, but is not limited to, the following:

- a. Note the cash/check composition of all money collected and consistently reconcile all deposits to ensure that money collected is deposited intact.
- b. Properly record all money received immediately upon receipt.
- c. Restrictively endorse all checks at the time of receipt.
- d. Establish accountability for all cash registers and cash boxes.
- e. Provide ongoing appropriate training in cash receipting procedures for new employees involved in cash handling functions.

Auditee's Response

The district concurs with this finding and is taking corrective actions. The district has scheduled a workshop this fall to go over the current policies and correct procedures. The district has hired an internal control accountant to continuously monitor this area.

3. School Enrollment Record Keeping Procedures Should Be Improved

Our review of the district's student enrollment records, disclosed that the district still does not have an adequate internal control system to ensure that student enrollment counts reported to the Superintendent of Public Instruction (SPI) are accurate. During the prior year's audit, we noted that the district was not retaining adequate records to support the enrollment reports. The district corrected the problem of maintaining monthly P-223 reports. However, the individual schools tested did not consistently maintain the daily attendance reports with which to substantiate enrollment reports submitted. Additionally, we found that the administration office, responsible for compiling the individual school's enrollment counts, did not adequately reconcile the individual school's enrollment counts to the student counts submitted on the P-223 report to SPI. This weakness resulted in many instances of incorrect reporting. Errors from school to school resulted in both overclaiming of students and underclaiming of students. Because all necessary records were not maintained, the district was unable to substantiate enrollment reports.

Full-time-equivalent (FTE) student enrollment is an important factor in determining the amount of funds apportioned to the district for basic education. *Revised Code of Washington* (RCW) 28A.150.250 states in part:

. . . as the superintendent of public instruction may deem appropriate for consideration in computing state equalization support, excluding excess property tax levies, will constitute a basic allocation in dollars for each annual average full time equivalent student enrolled

The SPI *Administrative and School Business Services Bulletin 34-95*, Section V.K. states in part:

Because enrollments reported on Forms P-223, P-223H, P-223S, and P-240 generate state moneys, school districts must retain supporting documentation for audit

The Secretary of State's Division of Archives and Records Management has established the following standards for retaining school district records:

Attendance cards (or other evidence of attendance)	3 years
Daily attendance reports	Until completion of the State Auditor's examination
Enrollment reports	6 years

Established policies and procedures were not adequately followed to ensure accurate student enrollment reports. Due to the lack of adequate enrollment records, the district was unable to support reported student enrollment. Thus, the district may not have received all of the money to which the district was entitled to or the state may have provided more support than required.

We again recommend that district officials establish procedures to ensure accurate reporting of student enrollment.

Auditee's Response

The district concurs with this finding and is taking corrective actions. The district has scheduled a workshop this fall to go over the current policies and correct procedures. The district has hired an internal control accountant to continuously monitor this area.

4. Coordination Of Enrollment Between The Spokane Skills Center And The Cooperative Districts Needs To Be Improved

Spokane Skills Center is a cooperative activity of several school districts within Spokane County, for which Spokane School District No. 81 is the host. Our audit of the Spokane Skills Center's enrollment reporting to the Superintendent of Public Instruction (SPI) revealed that the district is overclaiming full-time-equivalents (FTE) for participating students. The Spokane Skills Center reports participating students as .6 FTE, when the students are in class for 145 minutes. (145 min. / 300 min.= .483 FTE).

Further review of Spokane Skills Center enrollment reports disclosed discrepancies when compared to the enrollment reports of the various cooperative member districts. The errors noted included:

- a. Students residing in participating school districts, other than Spokane School District No. 81, are consistently reported as 1.1 or 1.2 FTE. This occurs because both the Skills Center and the resident district are reporting a portion of the student's time. A student may not be claimed as more than 1.0 FTE.
- b. Not claiming students whose resident districts indicated they were attending Spokane Skills Center.
- c. Claiming students whose resident districts indicated they were not attending Spokane Skills Center.
- d. Failure to delete students who withdraw from their respective resident districts.

Washington Administrative Code (WAC) 392-121-122 defines a full-time-equivalent student.

- (e) Secondary (grades 7-12): 25 hours per week, or 5 hours (300 minutes) each scheduled school day.

WAC 392-121-136 states that no student, including a student enrolled in more than one school district, shall be counted as more than one full-time-equivalent.

Revised Code of Washington (RCW) 28A.150.400, and the WAC thereunder, require the district to maintain appropriate records which substantiate the accuracy of the district's computations for full-time-equivalent (FTE) student enrollment.

Spokane School District may have received an overpayment of apportionment due to these reporting errors. These reporting errors occurred due to a breakdown in communication between the Skills Center and the participating cooperative districts. Because the Skills Center's cooperative agreement is unclear as to the proper reporting of member districts and because we only reviewed a sample of enrollment records, we did not determine a dollar impact of these differences.

We recommend that district officials, in coordination with the cooperative member districts, implement written policies and procedures which will ensure the accurate reporting of student enrollment at Spokane Skills Center. We further recommend that the district, in conjunction with the participating cooperative districts, contact SPI to determine the proper disposition of these errors.

Auditee's Response

The district believes the enrollment reported in accordance with the contractual agreement with the participating cooperative districts.

The district also believes there is a difference between a normal high school with 50 minutes of instruction time and 10 minutes of passing time between classes compared to a skills center which has continuous instructional contact time where passing time is not necessary. Further, the district believes that this type of scheduling in a skills center curriculum has been traditionally accepted as appropriate three hour instructional courses.

Auditor's Concluding Remarks

We appreciate the district's timely response to our audit findings. It appears that the concerns noted in these findings are being adequately addressed. We will review the district's progress in these areas during our next scheduled audit.

With respect to Finding 4, this is an area where SPI and the Attorney General's Office will need to make the final determination. We are not aware of any statute which allows the district to distinguish a difference in reporting between skills center enrollment and basic education enrollment. Thus, we reaffirm our finding.

We also wish to thank the district's officials and personnel for their assistance and cooperation during our audit.

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Financial Statements

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the accompanying general-purpose financial statements of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, as listed in the table of contents. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Spokane School District No. 81, at August 31, 1995, and the results of its operations for the fiscal year then ended, in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 31, 1996, on our consideration of the district's internal control structure and a report dated July 31, 1996, on its compliance with laws and regulations.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT No. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Supplementary Information
Schedule Of Federal Financial Assistance

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the general-purpose financial statements of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated July 31, 1996. These financial statements are the responsibility of the district's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of Spokane School District No. 81 taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

**Independent Auditor's Report On Compliance With The General Requirements
Applicable To Federal Financial Assistance Programs**

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the general-purpose financial statements of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated July 31, 1996.

We have applied procedures to test the district's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995:

- Political activity
- Civil rights
- Cash management
- Federal financial reports
- Allowable costs/cost principles
- Drug-Free Workplace Act
- Administrative requirements

The following requirements were determined to be not applicable to its federal financial assistance programs:

- Davis-Bacon Act
- Relocation assistance and real property acquisition
- Subrecipient monitoring

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the district's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the district had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited.

It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Independent Auditor's Report On Compliance With Specific Requirements
Applicable To Major Federal Financial Assistance Programs

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the general-purpose financial statements of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated July 31, 1996.

We also have audited the district's compliance with the requirements applicable to its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the fiscal year ended August 31, 1995. Those requirements include:

- types of services allowed or unallowed
- eligibility
- matching, level of effort, or earmarking
- reporting
- special tests and provisions related to carryover of funds, parent involvement, program effectiveness, private school participation, schoolwide projects, and timely obligation of funds for Educationally Deprived Children/Local Educational Agencies - (Chapter 1 of ESEA) (CFDA 84.010) and parent notification, rights and hearing process, individualized education progress, and timely obligation of funds for Special Education - State Grants (Part B, Education of Handicapped Act) (CFDA 84.027) as described in the OMB *Compliance Supplement for Single Audits of State and Local Governments*
- and claims for advances and reimbursements

The management of the district is responsible for the district's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the district's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, Spokane School District No. 81 complied, in all material respects, with the requirements referred to in the second paragraph of this report that are applicable to its major federal financial assistance programs for the fiscal year ended August 31, 1995.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT No. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

**Independent Auditor's Report On Internal Control Structure Used In
Administering Federal Financial Assistance Programs**

Board of Directors
Spokane School District No. 81
Spokane, Washington

We have audited the general-purpose financial statements of Spokane School District No. 81, Spokane County, Washington, as of and for the fiscal year ended August 31, 1995, and have issued our report thereon dated July 31, 1996. We have also audited their compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 31, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and about whether the district complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audit, we considered the district's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and on compliance with requirements applicable to major federal assistance programs and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated July 31, 1996.

The management of the district is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
 - Cash receipts
 - Purchasing and receiving
 - Payroll
 - General ledger
- **General Requirements**
 - Political activity
 - Civil rights
 - Cash management
 - Federal financial reports
 - Allowable costs/cost principles
 - Drug-Free Workplace Act
 - Administrative requirements
- **Specific Requirements**
 - Types of services
 - Eligibility
 - Matching, level of effort, earmarking
 - Reporting
 - Special requirements
- **Claims For Advances And Reimbursements**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
 - Cash disbursements
 - Receivables
 - Accounts payable
 - Inventory control
 - Property, plant, and equipment
- **General Requirements**
 - Davis-Bacon Act
 - Relocation assistance and real property acquisition
 - Subrecipient monitoring
- **Amounts Claimed Or Used For Matching**

During the fiscal year ended August 31, 1995, the district expended 88 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the district's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the board of directors and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag
State Auditor

July 31, 1996

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Status Of Prior Findings

The findings contained in the prior audit report were resolved as follows:

State:

1. Controls Over Cash Receipting Should Be Strengthened

Resolution: We completed testing of the district's main cashier and found the controls recommended were implemented.

2. The District Should Maintain Records To Support Enrollment Reporting

Resolution: We completed testing of the school's enrollment records and found numerous problems. Finding has been repeated.

Federal:

1. The District Should Accurately Report Handicapped Enrollment To The Superintendent Of Public Instruction

Resolution: We reviewed SPI's in-depth testing of handicap files and found no exceptions. Finding has been resolved.

2. Internal Controls Over Fixed Assets Should Be Improved

Resolution: The district is in the process of installing a new fixed asset computer program and implementing controls to ensure the safeguarding of fixed assets.

SPOKANE SCHOOL DISTRICT NO. 81
Spokane County, Washington
September 1, 1994 Through August 31, 1995

Status Of Prior Questioned Costs

<u>Grant</u>	<u>CFDA Number</u>	<u>Audit Report Year</u>	<u>Questioned Costs</u>	<u>Current Status</u>	
				<u>Resolved</u>	<u>Unresolved</u>
EHA-B	84.027	FY 1994	\$372,201	X	